

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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R 251535Z AUG 77
FM AMEMBSSSY CAIRO
TO SECSTATE WASHDC 8719
INFO AMEMBASSY MOSCOW
AMCONSUL ALEXANDRIA

S E C R E T SECTION 01 OF 02 CAIRO 14168

EXDIS

E.O. 11652: GDS
TAGS: ETRD EG UR
SUBJ: PRIMIN'S VIEW ON COTTON EMBARGO AND BILATERAL TRADE
RELATIONS WITH USSR AND CZECHOSLOVAKIA

REF: (A) CAIRO 13916, (B) CAIRO 13860

SUMMARY: PRIMIN AGREES WITH SADAT'S DESIRE REDUCE EGYPTIAN
DEPENDENCE ON SOVIETS AND EAST BLOC, BUT OPINES MATTER MUST
BE HANDLED CAREFULLY, EGYPT NEEDS RAW MATERIALS AND INTER-
MEDIATE GOODS NOW BEING IMPORTED FROM SOVIETS AND EASTERN
BLOC UNDER BILATERAL ARRANGEMENT. FINDING NEW SOURCES WILL
TAKE TIME. GOE ALSO DEPENDENT ON USSR FOR SAPRE PARTS
REQUIRED BY VARIOUS PUBLIC SECTOR FACTORIES. IF ALL COTTON
EXPORTS TO SOVIETS STOPPED, GOE WILL HAVE TO PAY FOR NEEDED
IMPORTS FROM USSR IN HARD CURRENCY. PRIMIN IS RECOMMENDING
TO SADAT THAT EXISTING BILATERAL AGREEMENT WITH SOVIETS BE
CONTINUED THROUGH REMAINDER OF THIS YEAR. THEREAFTER,
DEPENDING ON RESULTS OF PROVES FOR ALTERNATIVE COTTON
MARKET AND RAW MATERIALS SOURCES, DESIRED ADJUSTMENTS
IN TRADE RELATIONSHIPS MIGHT BE MADE IN NEW TRADE
AGREEMENT TO BE NEGOTIATED IN 1978. 867 SOVIET
CIVILIAN TECHNICAL ADVISERS STILL PRESENT IN EGYPTIAN

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FACTORIES. PRIMIN IS EXPLORING WITH JAPANESE AND
ITALIANS POSSIBLITY REPLACING SOVIET CITILIAN TECHNICAL
ADVISERS. THERE IS GENERAL RELUTCTANCE MOVE TOO HASTILY IN
IMPLEMENTING PRESIDENT'S ORDER. FAHMY ADVISES THAT
SOVIET AND CZEXH COTTON QUOTAS HAVE BEEN REDUCED AND THAT
\$30 MILLION ELECRICITY PROJECT WITH CZECHS HAS BEEN
CANCELLED. END SUMMARY.

1. IN MEETING WITH PRIMIN MAMDUH SALEM, AUGUST 24, I MENTIONED PRESIDENT SADAT'S COMMENTS TO ME ABOUT EMBARGO IMPOSED ON EGYPTIAN LONG-STAPLE COTTON SHIPMENTS TO USSR AND CZECHOSLOVAKIA AND THE PRESIDENT'S DESIRE TO FIND ALTERNATIVE SOURCES FOR RAW MATERIALS AND INTERMEDIATE GOODS NORMALLY OBTAINED FROM SOVIETS AND/OR EASTERN BLOC UNDER BILATERAL ARRANGEMENTS (REF B). SAID I HAD ALSO MET WITH DEP PRIMIN QAYSUNI (REF A) AND WONDERED HOW PRIMIN VIEWS PROBLEM.

2. SALEM'S COMMENTS WERE GUARDED. HE OBSERVED THAT THE PRESIDENT WAS INTENSELY "FRUSTRATED" BY APPARENT SOVIET PRESSURE ON CZECHOSLOVAKIA TO DELAY SHIPMENT OF TANKS FOR WHICH GOE HAD ALREADY PAID IN HARD CURRENCY. SADAT HAD REACTED BY ORDERING EMBARGO. ALTHOUGH SOVIETS HAD NOT YET REACTED IN ANY MAJOR WAY, GOE HAS TO TAKE INTO ACCOUNT POSSIBILITY THAT THEY MAY DO SO, THROUGH CURTAILING NEEDED RAW MATERIALS AND INTERMEDIATE GOODS SHIPMENTS TO EGYPT.

3. SALEM STATED THAT HE, OF COURSE, AGREES WITH PRESIDENT'S DESIRE TO REDUCE EGYPTIAN DEPENDENCE ON SOVIETS AND EAST BLOC, BUT OPINED MATTER HAS TO BE HANDLED VERY CAREFULLY. EGYPT, HE NOTED, NEEDS RAW MATERIALS, ESPECIALLY COKING COAL AND TIMBER, NOW BEING
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IMPORTED FROM SOVIETS AND EASTERN BLOC. NEW SOURCES CAN BE FOUND, BUT THIS WILL TAKE TIME. MOREOVER, ORDERS FOR RAW MATERIALS AND TIMBER ALREADY PLACED WITH SOVIETS FOR THIS YEAR. IF GOE NOW STOPS ALL COTTON EXPORTS TO SOVIETS, IT WILL HAVE TO PAY FOR THESE IMPORTS FROM SOVIET UNION (ASSUMING SOVIETS DO NOT CURTAIL THEM) IN HARD CURRENCY. THIS HARDLY DESIRABLE AT A TIME WHEN GOE IS ALREADY SUFFERING ACUTE SHORTAGE OF HARD CURRENCY. ADDITIONALLY, GOE IS DEPENDENT UPON SOVIET UNION AND EASTERN BLOC FOR SPARE PARTS REQUIRED FOR HELWAN STEEL MILL, NAG HAMMADI ALUMINUM PLANT, AND VARIOUS OTHER SOVIET-SUPPLIED PUBLIC SECTOR FACTORIES. THESE SPARE PARTS CANNOT BE OBTAINED OUTSIDE O USSR OR EASTERN BLOC COUNTTIES. APART FROM THIS, EASTERN BLOC IS ONLY MARKET WHICH WILL ACCEPT MANY EGYPTIAN PRODUCTS, SUCH AS SPIRITS, LOW-QUALITY SHOES AND FURNITURE, AND PERFUMES.

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4. GIVEN THE SITUATION, PRIMIN SAID HIS RECOMMENDATION IS TO TRY TO CONTINUE EXISTING BILATERAL AGREEMENT WITH SOVIETS THROUGH AT LEAST THE REMAINDER OF THIS YEAR. NEW BILATERAL TRADE AGREEMENT WILL IN ANY CASE HAVE TO BE NEGOTIATED WITH SOVIETS FOR 1978. PERHAPS A SMALLER AMOUNT OF COTTON MIGHT BE SENT TO USSR (AND CZECHOSLOVAKIA) THIS YEAR, BUT IT SHOULD BE ENOUGH TO PAY FOR COMMODITIES ALREADY ORDERED. PERHAPS BY 1978, SOUNDINGS CAN HAVE BEEN TAKEN RE EUROPEAN AND JAPANESE MARKETS' WILLINGNESS TO TAKE ADDITIONAL EGYPTIAN COTTON AND POSSIBLE ALTERNATIVE SOURCES FOR COKING COAL AND TIMBER. ALTERNATIVE SOURCES ARE AVAILABLE, PRIMIN OPINED, AND GOE IS PREPARED PAY IN HARD CURRENCY. HE RECALLED THAT THERE HAD EVEN BEEN DISCUSSIONS WITH VISITING AMERICAN BUSINESSMEN RE POSSIBILITY PURCHASING COKING COAL FROM U.S. (I TOLD HIM WE WERE BRINGING IN LIMITED QUANTITY FROM U.S. THROUGH CIP.) IN ANY EVENT, SOME TRADE RELATIONSHIP WOULD HAVE TO CONTINUE WITH SOVIETS FOR NEEDED SPARE PARTS FOR FACTORIES.

5. PRIMIN WAS ALSO AWARE OF PRESIDENT'S DESIRE GET RID OF ALL REMAINING SOVIET TECHNICAL ADVISERS. HE SAID THERE ARE NOW 867 SOVIET CIVILIAN TECHNICAL ADVISERS IN
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EGYPTIAN FACTORIES. HE HAD EARLIER DISCUSSED WITH BOTH JAPANESE AND ITALIANS POSSIBILITY TAKING OVER TECHNICAL ADVISORY FUNCTIONS AT HELWAN STEEL MILL AND ALEXANDRIA SHIPYARD. JAPANESE EXPRESSED INTEREST, BUT HAVE NOT THUS FAR COME UP WITH ANY PROPOSALS. ITALIANS HAD PRESENTED

PROPOSAL FOR HELWAN STEEL MILL WHICH WAS FAR TOO COMPLICATED. IN VIEW PRESIDENT'S WISHES, PRIMIN INTENDS FOLLOW UP MATTER WITH JAPANESE.

6. COMMENT: PRIMIN SALEM, LIKE MOST OTHER EGYPTIAN CABINET MEMBERS, IS CLEARLY DISTURBED BY PRESIDENT'S HASTY ACTION. I SENSED THAT, WITHOUT DISSENTING FROM PRESIDENT'S WISHES, HE HOPES TO PERSUADE SADAT WITH GOE MUST MOVE SLOWLY AND THAT SOME TRADE RELATIONSHIP WITH SOVIETS MUST REMAIN. FAHMY TOLD ME TODAY THAT THE ONLY ACTION TAKEN THUS FAR TO IMPLEMENT PRESIDENT'S DECISION HAS BEEN TO REDUCE SOVIET AND CZECH COTTON QUOTAS. (IN CASE OF CZECHS, A \$30 MILLION ELECTRICITY PROJECT AHD ALSO BEEN CANCELLED.) EAST GERMAN AMBASSADOR TOLD ME THAT A SHIPMENT OF COTTON CONSIGNED TO CZECHOSLOVAKIA WAS IN FACT LOADED ABOARD EAST GERMAN FREIGHTER AT ALEXANDRIA TWO DAYS AGO, I.E. AFTER THE PRESIDENT'S EMBARGO ON ALL COTTON SHIPMENTS TO SOVIET UNION. CLEARLY, THEREFORE, PRIMIN AND CABINET INTERPRET PRESIDENT'S EMBARGO ORDER AS ALLOWING THEM SOME FLEXIBILITY IN IMPLEMENTATION. PRIMIN AND CABINET COLLEAGUES ARE ANXIOUS TO AVOID A COMPLETE BREAK IN TRADE RELATIONSHIPS WITH USSR UNLESS IT BECOMES ABSOLUTELY NECESSARY TO DO SO. EAST EUROPEAN COUNTRIES TEND TO BE TREATED MORE CAVALIERLY.
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